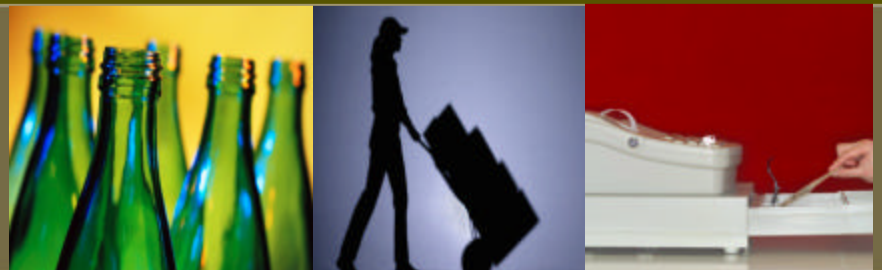


Liquor Control Board  
**Wine and Beer**  
**Three-Tier System Review**  
**Task Force**

May 3, 2006 - Meeting #1



# Welcome!



- **Opening Comments – LCB Chairman**
- **Agenda**
- **Introductions**
  - Task Force Chair: Nate Ford
  - Sterling Associates: Jill Satran & Kim Rau
    - Contact info: 360.956.9064
    - [jills@sterling-llp.com](mailto:jills@sterling-llp.com) and [kimr@sterling-llp.com](mailto:kimr@sterling-llp.com)
  - Task Force Members
  - Audience

# Purpose of Task Force



- **The Three-Tier Review includes a comprehensive examination of the state's objectives and controls related to the sale and distribution of wine and beer to confirm and/or recommend modifications, replacements, or eliminations.**
  - Spirits (hard liquor) and related structure/controls are NOT in the study scope.
- **The Task Force will consider information, discuss alternatives and recommend actions, culminating in a report to the Liquor Control Board (LCB) in November.**
- **The LCB will prepare a proposal to the Legislature, addressing the Task Force report and recommendations.**

# Task Force Ground Rules (doc #2)



1. Consistent attendance of members is critical to success.
2. Preparation prior to each meeting is important.
3. Conformance to due dates will keep the process on schedule and ensure adequate input.
4. Meetings must be productive and move the process forward.
5. All constructive viewpoints and ideas will be considered within the boundaries and scope of the study.
6. The standard for decisions will be the majority opinion, with minority or dissenting comments.
7. The final Task Force report will be written in the voice of the Task Force to the Liquor Control Board.
8. Only Task Force members will participate in Task Force discussions. (Public written comments welcome – see next page)

# Written Comments



- **Written comments from stakeholders and/or Task Force meeting audience are welcome (contact information must be included) and can be submitted via:**
  - LCB web site: [WWW.LIQ.WA.GOV](http://WWW.LIQ.WA.GOV) (link to Task Force)
  - Email to Sterling Associates (please address to both)
    - Jill Satran – [jills@sterling-llp.com](mailto:jills@sterling-llp.com)
    - Kim Rau – [kimr@sterling-llp.com](mailto:kimr@sterling-llp.com)
- **Written comments received by the Friday before a Task Force meeting will be included in a consolidated document to the Task Force members. Written comments will be summarized and presented at each Task Force meeting. (They will not necessarily be individually addressed via email or by the Task Force.)**

# Task Force Charter

(doc #3)



- **Context will be covered in detail later in the meeting during the history, current structure, and policy goal discussions.**
- **Four key questions:** (page 2 Charter)
  - Are the state's current alcohol sales/distribution policy goals still relevant and appropriate today?
  - What are the current controls and structure for meeting the policy goals related to beer and wine, and are they effective?
  - Is there evidence that the current controls and/or structure significantly impact industry businesses, consumers, society and/or the state?
  - What alternative controls and/or structure are available to meet the state's relevant policy goals and what are their impacts to industry businesses, consumers, society and/or the state?

# Task Force Charter (continued)



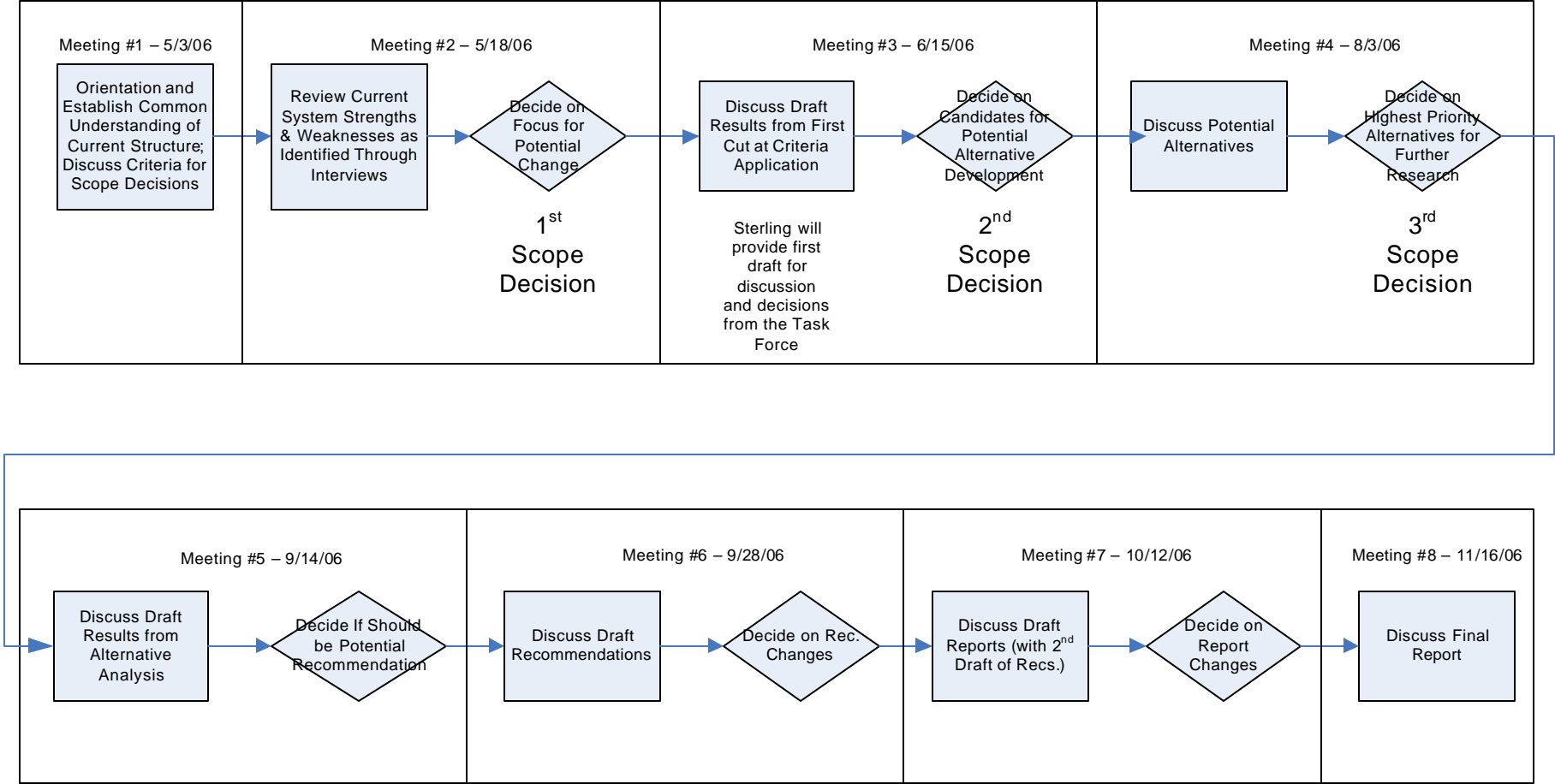
- **Success**

- Answering the preceding questions and providing specific recommendations to the LCB.

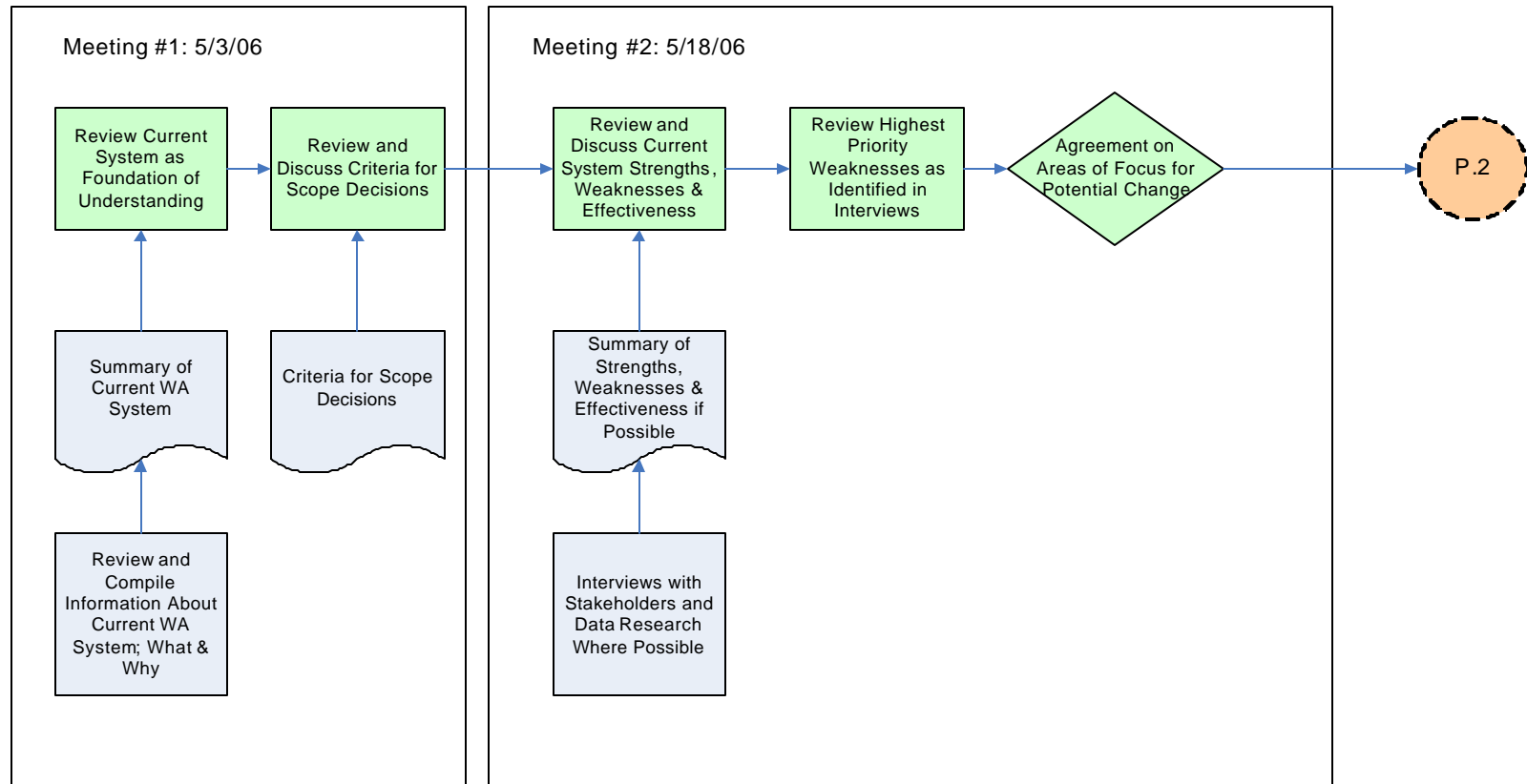
- **Roles and Responsibilities**

- Task Force Members
  - Prepare for and attend meetings, positively contribute, decide on constructive recommendations and review/approve final report.
- Sterling Associates
  - Coordinate Task Force meetings and communications, collect and present information, prepare analysis and draft findings, and prepare the final report.
- LCB
  - Participate on the Task Force, provide information, and review and address Task Force recommendations.

# Review Process



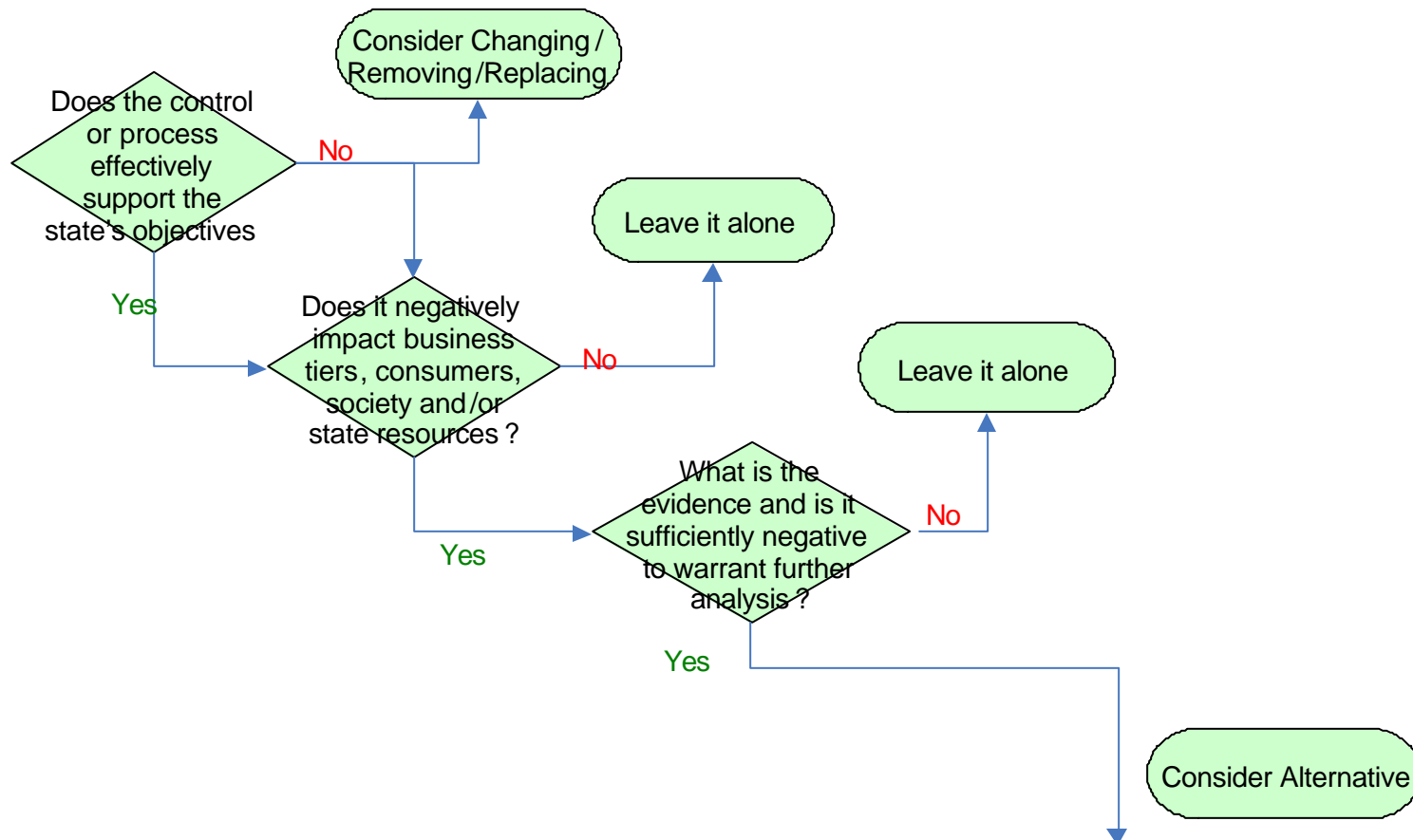
# Review Process (continued)



# Review Process (continued)



## Meeting #3: 6/15/06

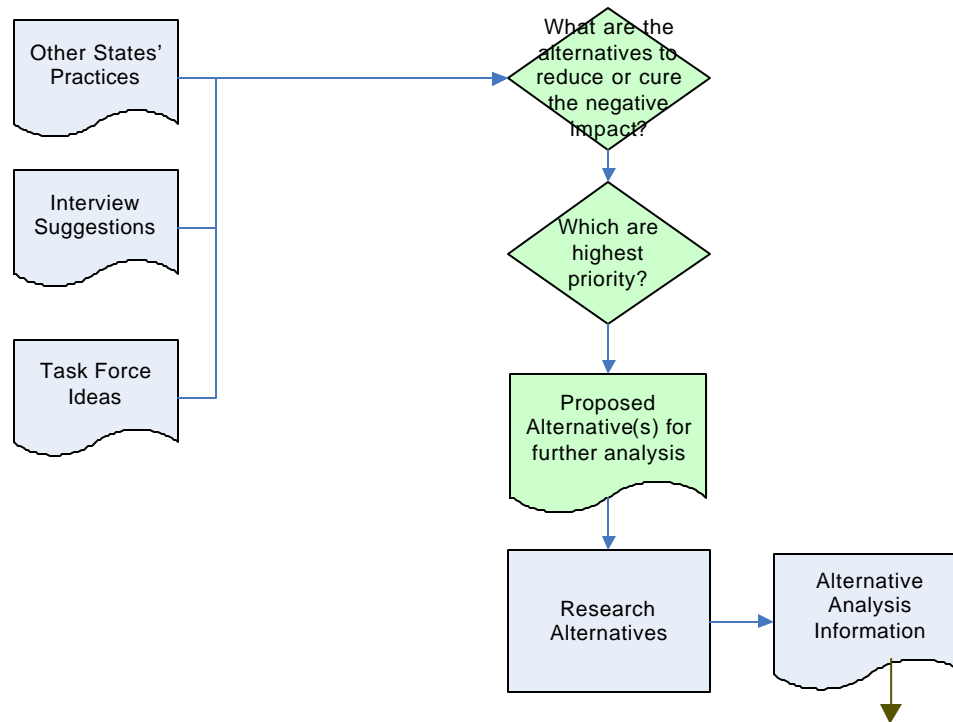


## Meeting #4 (Alternatives)

# Review Process (continued)



## Meeting #4 8/3/06 (Alternatives)

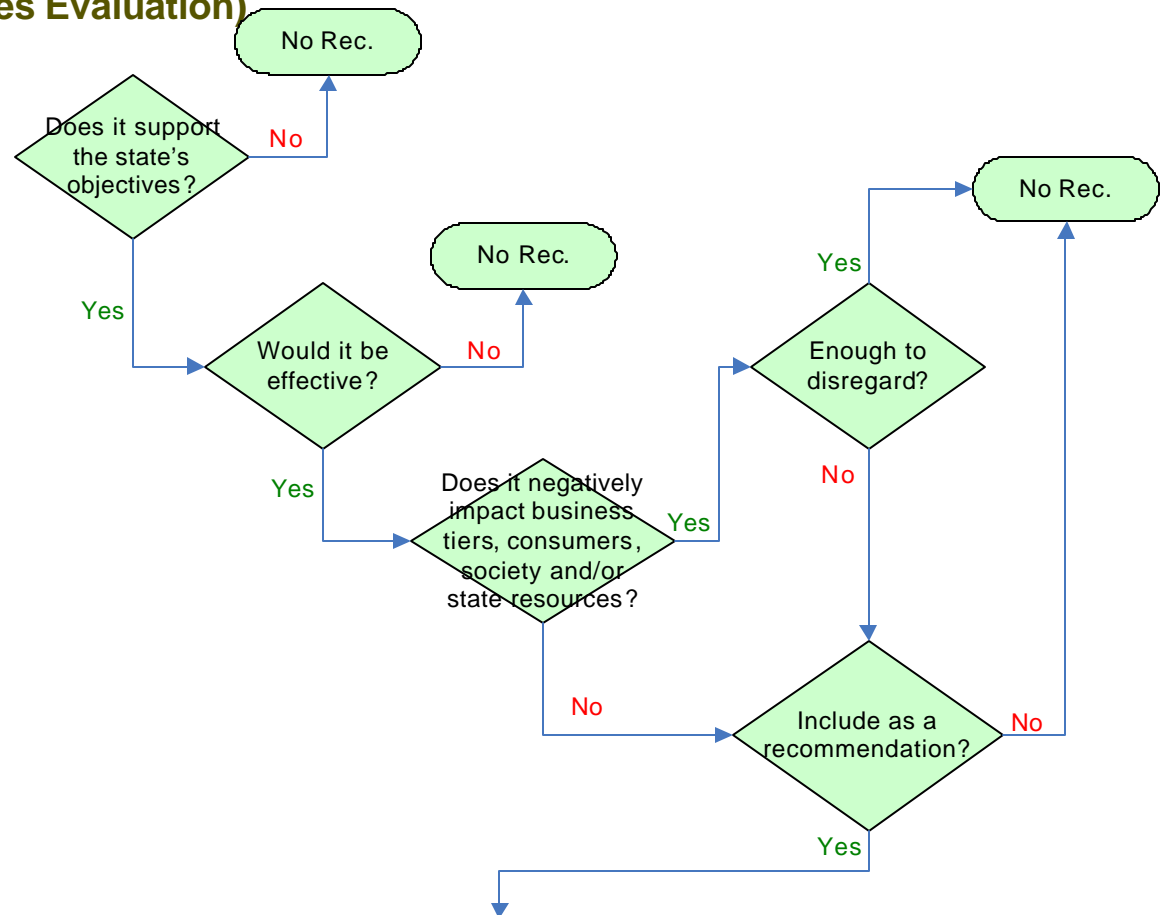


## Meeting #5 (Alternatives Evaluation)

# Review Process (continued)

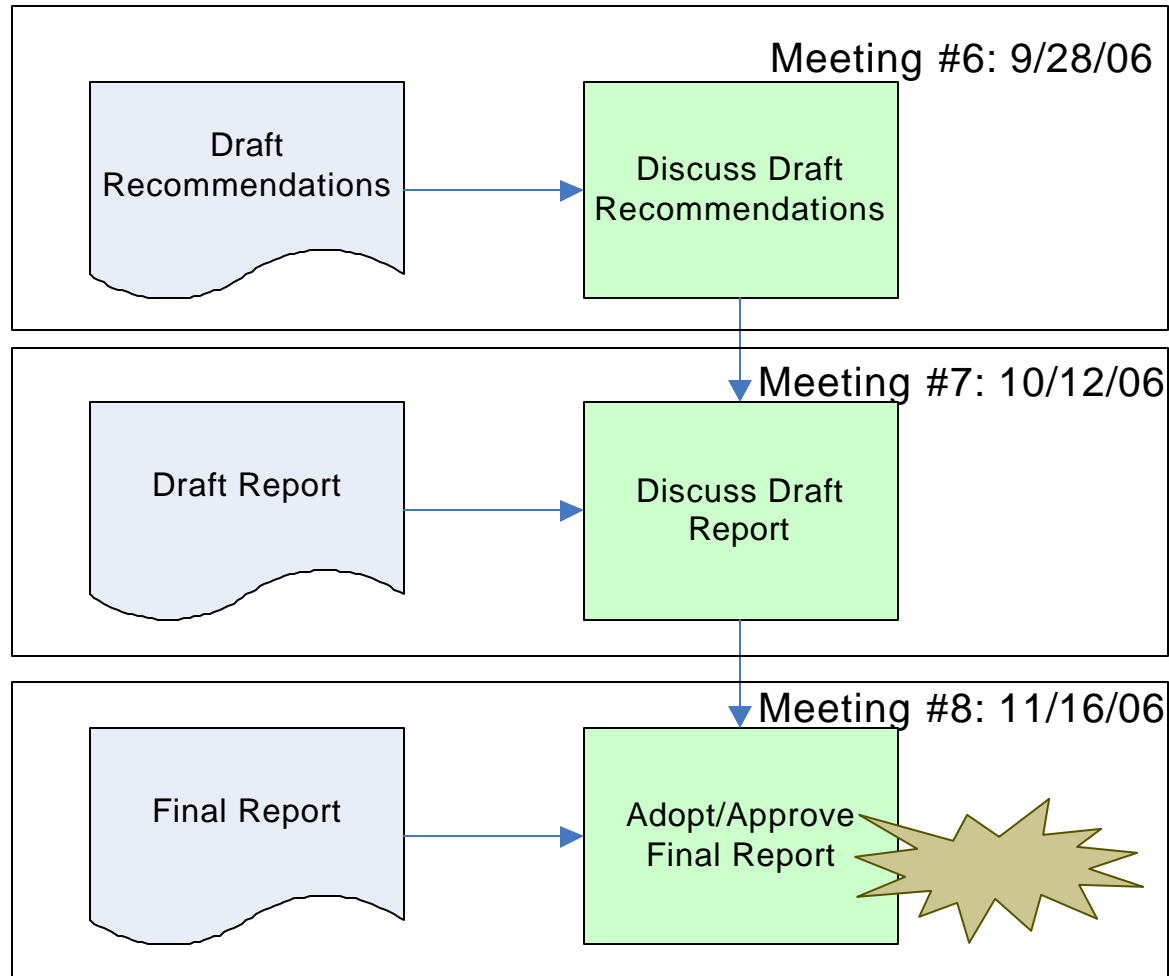


## Meeting #5 9/14/06 (Alternatives Evaluation)



## Meeting #6 (Draft Recommendations)

# Review Process (continued)



The Task Force's work will culminate in a report that documents the process and considerations, and presents Task Force recommendations to the LCB. The LCB will also provide the report to the Legislature.

# Questions?



- **Between meetings, Sterling Associates will coordinate communication to, from and among Task Force members as needed and will consolidate written public comments for Task Force consideration.**
- **Questions about the process?**

# National Perspective

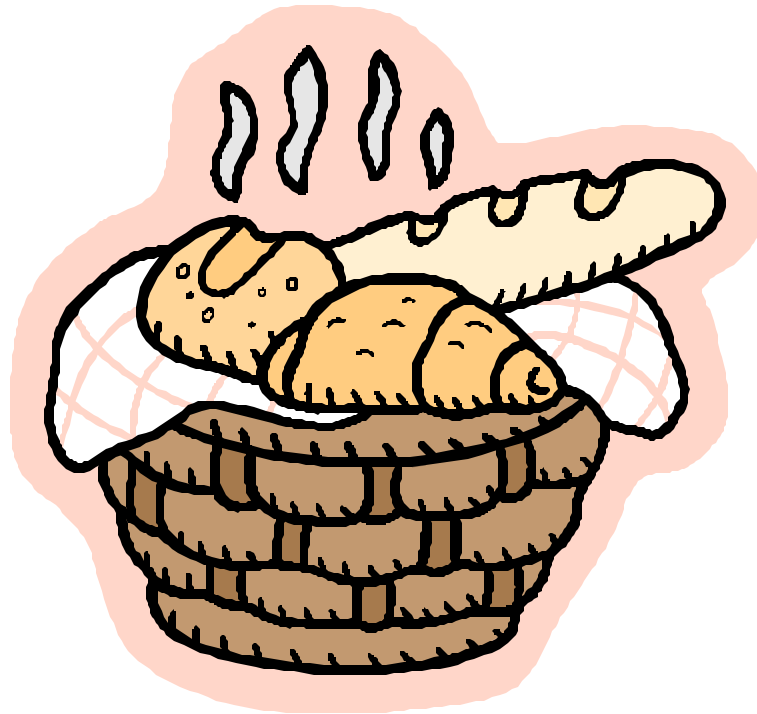


- **Jim Goldberg - National Alcohol Beverage Control Association**
  - “The American Experience with Alcohol”

# BREAK



- Please come back.....



# Current System - Background



- **Washington State has regulated the distribution and sale of beer and wine since the early 1930s.**
  - The fundamental structure of a three-tiered system, with a financial separation of the three tiers, has been in place since that time.
  - Over the past 75 years, however, significant modifications have been made to the system.
- **Washington is one of 18 “control” states**
  - Washington directly controls the distribution and sale of spirits.
  - Washington indirectly controls the distribution and sale of beer and wine by licensing and regulating private entities to carry out the distribution and sale of beer and wine.

# Current System - Policy Goals



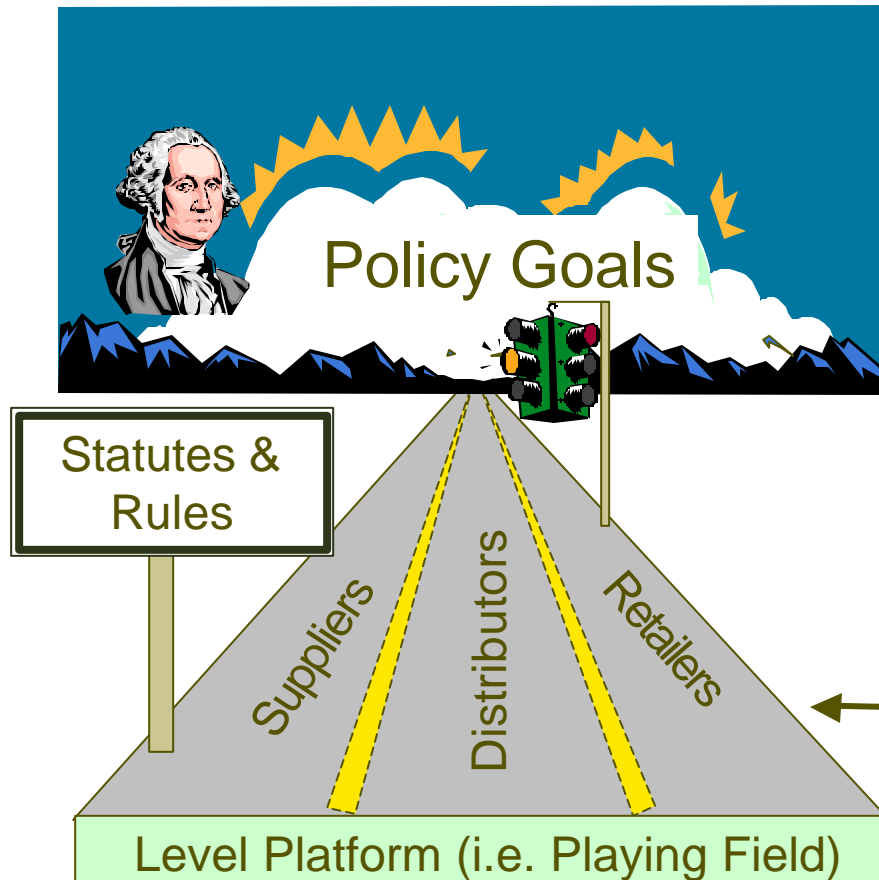
- **State policy goals**

- Foster temperance / promote moderation in consumption of alcohol
  - Temperance or moderate consumption means responsible consumption by legal adults that does not result in harm to others (i.e., no underage distribution or sales, no driving under the influence...)
- Assure controlled, responsible and orderly marketing of alcohol
  - Avoidance of pressure on any one industry (producers, distributors or retailers) from another that would cause collusion or result in unfair advantages or disadvantages that may result in over-consumption. It also includes consideration of a consistent market for consumers related to price and selection.
- Promote the efficient collection of taxes
  - Readily available and reliable information about all sales in order to effectively collect accurate state taxes.

*“Prevent the misuse of alcohol and promote public safety through controlled retail and wholesale distribution, licensing, regulation, enforcement and education.”*

(LCB Mission Statement)

# Current System - Framework



What?

Destination: Achieve Public Policy Goals

How?

Strategy #1: Separate the three tiers

Strategy #2: Ensure a “level playing field”

Strategy #3: Control the flow through licensing

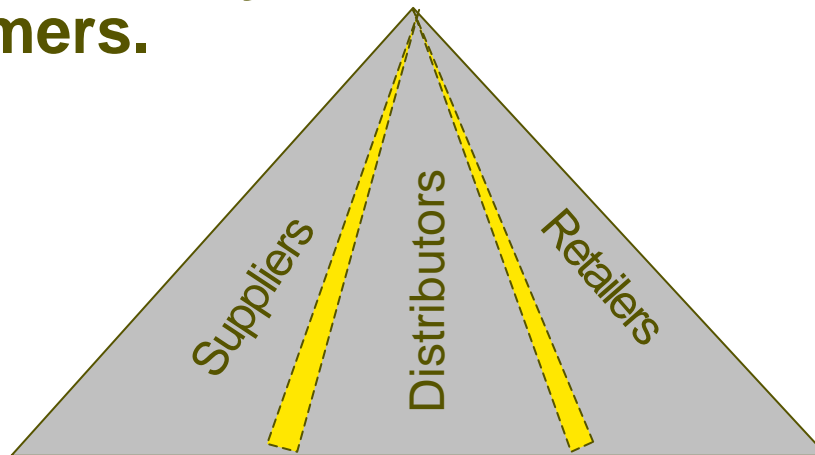
← Means/Infrastructure: Three-tier System

Specific direction? Statutes & Rules

# Three-Tiers



- Washington's "three-tier" system is the current infrastructure supporting the state's policy goals as they relate to the sale and distribution of beer and wine.
  - The state relies on a number of strategies to support the the state's overall policy objectives including consumer education, funding health care and research, and enforcement of laws/regulations.
- The three-tier system is based on a *strategy to separate the three industry tiers* to avoid collusion and undue influence of any one tier on another or on the consumers.



# Strategy: Separation



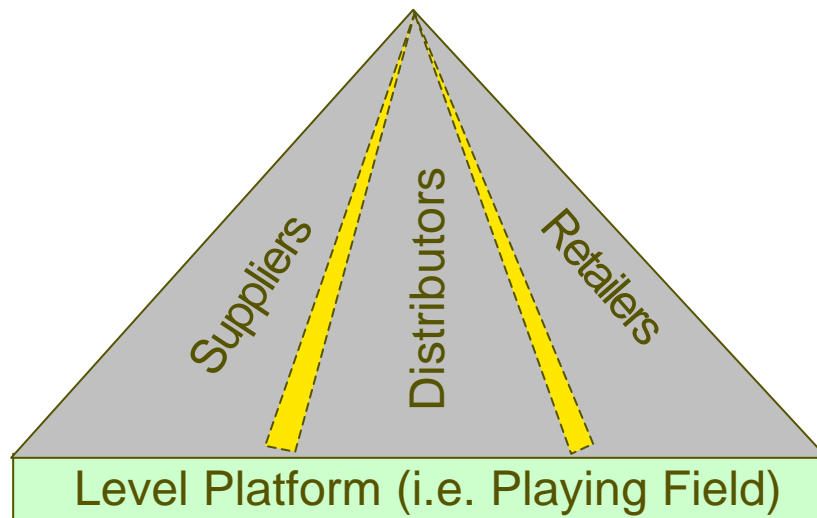
- **Separation strategy (continued)**

- “Tied-house” laws support the tier separations in financial matters, primarily focused on retailers - many of the rules do not apply between suppliers and distributors).
- Manufacturers, importers and wholesalers (MIW/aka suppliers) are prohibited from:
  - Direct or indirect financial interest in a licensed retail business;
  - Owning property upon which a retail licensee conducts business;
- Advancing money or money’s worth to a retail licensee;
- Holding a retail license or selling liquor at retail.
- Mandated separations require suppliers to sell their products to licensed distributors who, in turn, sell to licensed retailers.
- Over time, exceptions to strict separation of interests have been adopted. Examples include:
  - In-state wineries, breweries and microbreweries to act as wholesaler and as retailer of their own product.
  - In 2006 the Legislature extended this exception to out-of-state wineries, breweries and microbreweries. (Sunsets in 2008)

# Strategy: Level Playing Field



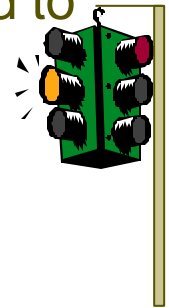
- **A second major strategy to achieve policy goals has been to “level the playing field” related to competition and pricing.**
  - The intent of this strategy is to enable equitable competition among large, medium and small industries within and among the tiers to avoid domination by a few (and resulting influence) and to mitigate illegal sales.



# Strategy: Flow Control



- **The third major strategy for meeting overall state policy goals is to control the flow of alcohol through licensing and enforcement.**
  - The objective of this strategy is to monitor and control the availability of alcohol, to enable effective tax collection, and to enforce statutes and rules.



# Supporting Regulations

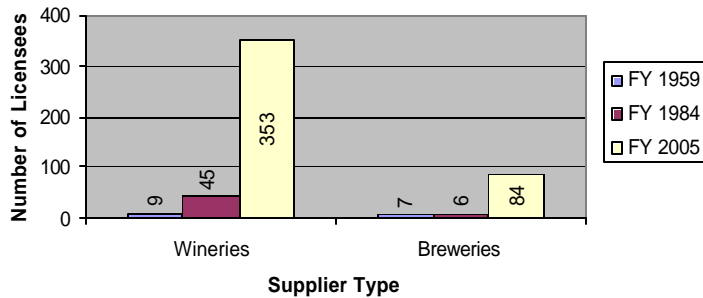


- **Besides education, licensing, and enforcement of consumption laws, a number of regulations have been adopted to support the strategies in achieving the state's policy goals**
  - Pricing
    - i.e., mandatory 10% markup from manufacturer to wholesaler and wholesaler to retailer (*RCW 66.28.180*), Price Posting / Post and Hold (*RCW 66.28.180*), prohibition on volume discounts (*RCW 66.28.170-.180*), uniform pricing to different retailers (*RCW 66.28.170-.180*, and more...
  - Separation of financial interests
    - Tied-house laws, i.e., restrictions on advertising (*WAC 314-52*), prohibition on extending credit to retailers (*RCW 66.28.010*), prohibited practices, and more...
  - Distribution
    - i.e., ban on central warehousing (*RCW 66.28.180*), prohibition on retailer-to-retailer sales (*RCW 66.28.070*), licensing (who, what, where, when and how), and more...

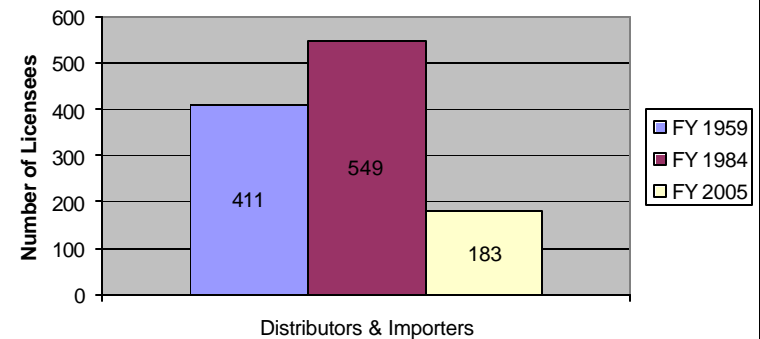
# The number of licensees is changing



**THE NUMBER OF SUPPLIERS HAS INCREASED SINCE 1984**



**THE NUMBER OF DISTRIBUTORS HAS DECREASED SINCE 1984\***



**THE NUMBER OF RETAILERS HAS INCREASED SINCE 1959**



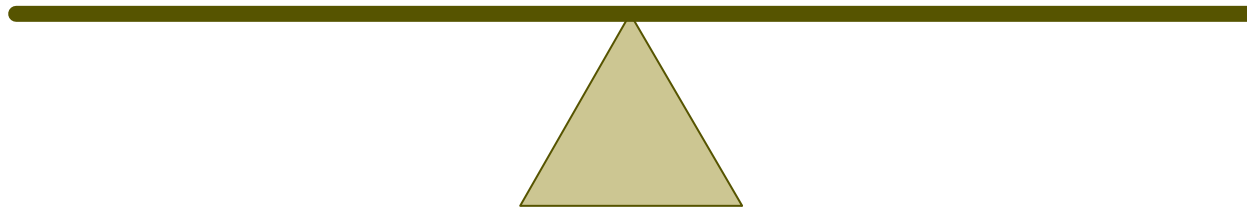
\* Note: in 1959 and 1984, distributors needed to add an importer license to import. In subsequent years, the importer privilege was included as part of the Distributor license.

# Liquor Control Board



PUBLIC SAFETY

CONTROLLED  
DISTRIBUTION



- The Liquor Control Board (LCB) licenses and regulates participants in the three-tier system.
- The LCB also plays a significant role in providing licensee and public education to prevent underage drinking and promote responsible consumption in adults who choose to drink alcohol.

# Policy Goals-Discussion



- **The environment related to alcohol in the early 1900's resulted in:** wide-spread illegal activity; organized crime; coercion and manipulation of politics, the industry and consumers; monopolies; lack of product diversity; little control over who sold what to whom; and no means to effectively tax the product.
- **The current regulatory structure originated to address those problems and evolved to support high-level policy goals to:**
  - Foster temperance / promote moderation in consumption of alcohol,
  - Assure controlled and orderly marketing of alcohol, and
  - Promote the efficient collection of taxes.

# Policy Goals-Discussion



- **The environment of the 21<sup>st</sup> Century has changed.**
  - Enforceable licensing, rules and regulations to: 1) prevent illegal activities; 2) monitor and control consumption, especially for minors; and 3) effectively collect taxes.
  - Sophisticated consumers who expect and demand diversity and quality in beer and wine (especially in Washington State).
  - A highly diverse and competitive wine and beer industry contributing to the state's tourism and economy. New business that old rules did not envision and do not support.
  - Wide-spread education about the negative impacts of alcohol.
- **However, alcohol still has dangers and addictive properties that can and do harm people and society.**
  - It may be assumed the control structure in place today has worked to produce these positive outcomes.
  - There have been changes to the specific controls over the years, and more may be needed.
- **But, first things first...**

# Policy Goals-Discussion



- **Are the original policy goals still relevant today?**
  - Why or why not?
  - Are there additional alcohol-related policy goals the state should consider?
- ***Don't think about how they are achieved – that will come later.***
- ***The policy goals will become the highest level criteria for assessing changes.***
- ***We will also discuss the relevancy of the three current major strategies to support the goals, and desired additions or modifications.***

# Wrap-up



- **What we accomplished today**
- **Next meeting's purpose and "homework" assignments**
  - Date/Time: Thursday May 18, 10a – 3p. Same place – LCB Conference Room C.
  - Purpose: to finish discussion on policy goals (if necessary) and high level strategies and review feedback related to current system strengths and weaknesses
  - Homework:
    - Send any comments on Charter changes to Sterling by Friday 5/12.
    - Review information you receive, including summary of today's meeting (by 5/8), Charter revisions (if any) and next meeting materials (by 5/16).
    - Send general questions or comments to Sterling Associates by Friday 5/12 if it needs to be included in 5/18 materials. (Public too.)
- **Questions?**

# Adjourn



- Thank you!
- See you in two weeks.